

ALPENA HOUSING COMMISSION
ALPENA, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

AUDITING PROCEDURES REPORT

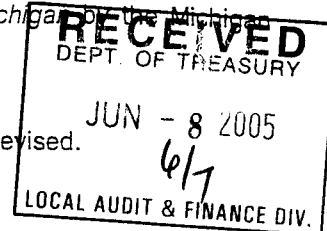
Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <i>Alpena Housing Commission</i>	County
Audit Date <i>12/21/04</i>	Opinion Date <i>5/13/05</i>	Date Accountant Report Submitted to State: <i>6/6/05</i>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.



We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	J		
Reports on individual federal financial assistance programs (program audits).			J
Single Audit Reports (ASLGU).			J

Certified Public Accountant (Firm Name) <i>Barry E. Gaudet, CPA, PC</i>			
Street Address <i>1107 E. 8th Street</i>	City <i>Traverse City</i>	State <i>MI</i>	ZIP <i>49686</i>
Accountant Signature <i>Barry E. Gaudet, CPA</i>			

ALPENA HOUSING COMMISSION
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INTRODUCTION

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
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Independent Auditor's Report

Board of Commissioners
Alpena Housing Commission
Alpena, Michigan

We have audited the accompanying statements of financial statements of the business-type activities of the Alpena Housing Commission, Michigan, a component unit of the City of Alpena, as of and for the year ended December 31, 2004, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Alpena Housing Commission, Michigan, as of December 31, 2004, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 7(D), the Housing Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended and interpreted as of December 31, 2004.

Alpena Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2005 on our consideration of Alpena Housing Commission, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise Alpena Housing Commission, Michigan's basic financial statements. The accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sam E. Tardiff, CPA, PC

May 13, 2005

ALPENA HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
December 31, 2004
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The Alpena Housing Commission, created in 1951, by the City of Alpena provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Alpena Housing Commission consists of two programs. The first is owned housing, consisting of 195 units of public housing and the second is the capital funding program. Alpena Housing Commission had total revenues of \$924,281 that includes \$426,741 in rental payments and \$485,314 in federal assistance. Total operating expenses were \$1,038,510, that includes \$203,115 in administrative expenses, \$133,914 in utilities, \$263,597 in ordinary maintenance expenses, and \$356,994 in depreciation expense. Total revenues were less than the prior year by \$296,517, due to the Capital Fund program closing out several years in the 2003 fiscal year. Operating expenses increased by \$30,638 over the prior year due, in part, to increases in maintenance costs of \$20,329.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by \$3,874,882. The Housing Commission's total net assets decreased by \$114,229 from the prior year. The decrease is attributable in part to the depreciation expense of \$356,994. The current assets increase of \$96,621 and the current liabilities increase of \$43,344, resulted in a net change of \$53,277. This increase can mostly be attributed to the cash flows increase of \$99,352 this calendar year.

Total assets of the Housing Commission were \$4,033,596 including \$730,730 of current assets and \$3,302,866 of net property, plant, and equipment assets. The Housing Commission had current liabilities of \$156,238. Assets decreased by \$81,084 from the prior year due in part to the depreciation expense of \$356,994 and maintenance costs increases of \$20,329.

The financial condition of the Housing Commission has not changed materially from the prior year, although the Net Assets did decrease by \$114,229 from the prior year. The Housing Commission remains very strong with a balance of \$730,730 in current assets.

ALPENA HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)

December 31, 2004

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Financial Highlights (continued)

The Housing Commission during the fiscal year replaced flooring, upgraded bathrooms, constructed a new sidewalk and purchased a copier and other various equipment items. The Housing Commission's capital outlays totaled \$179,289 during the current fiscal year.

The Housing Commission did not have any loan activity during the fiscal year.

There are not any significant currently known facts, decisions or conditions that have an impact on the Commission's operations to disclose.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Revenues, Expenses, and Changes in Fund Net Assets - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

ALPENA HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)

December 31, 2004

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Financial Analysis of the Housing Commission

The following combined condensed balance sheets show a summary of changes for the years ended December 31, 2004 and 2003.

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
Current assets	\$ 730,730	\$ 634,109	\$ 96,621
Property and equipment	<u>3,302,866</u>	<u>3,480,571</u>	<u>(177,705)</u>
Total assets	<u>\$4,033,596</u>	<u>\$4,114,680</u>	<u>\$ (81,084)</u>
Current liabilities	\$ 156,238	\$ 112,894	\$ 43,344
Noncurrent liabilities	<u>2,476</u>	<u>12,675</u>	<u>(10,199)</u>
Total liabilities	<u>158,714</u>	<u>125,569</u>	<u>33,145</u>
Net assets:			
Invested in capital assets	3,302,866	2,666,525	636,341
Unrestricted net assets	<u>572,016</u>	<u>1,322,586</u>	<u>(750,570)</u>
Total net assets	<u>3,874,882</u>	<u>3,989,111</u>	<u>(114,229)</u>
Total liabilities and net assets	<u>\$4,033,596</u>	<u>\$4,114,680</u>	<u>\$ (81,084)</u>

ALPENA HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)

December 31, 2004

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Financial Analysis of the Housing Commission (continued)

The following table summarizes the Statement of Revenues, Expenses and Changes in Net Assets of the Housing Commission for the years ended December 31, 2004 and 2003.

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 417,389	\$ 415,760	\$ 1,629
Nondwelling rent	<u>9,352</u>	<u>16,873</u>	<u>(7,521)</u>
Total operating revenues	<u>426,741</u>	<u>432,633</u>	<u>(5,892)</u>
Operating expenses:			
Administration	203,115	210,139	(7,024)
Tenant services	10,496	15,166	(4,670)
Utilities	133,914	130,563	3,351
Ordinary maintenance and operation	263,597	243,268	20,329
General expenses	61,848	55,897	5,951
Extraordinary maintenance	7,061	6,490	571
Casualty losses	1,485	(4,105)	5,590
Depreciation	<u>356,994</u>	<u>350,454</u>	<u>6,540</u>
Total operating expenses	<u>1,038,510</u>	<u>1,007,872</u>	<u>30,638</u>
Operating income(loss)	<u>(611,769)</u>	<u>(575,239)</u>	<u>(36,530)</u>
Non-operating revenue (expense):			
Interest income	7,607	5,792	1,815
Operating grants	315,982	330,193	(14,211)
Capital grants	169,332	446,645	(277,313)
Other income	<u>4,619</u>	<u>5,535</u>	<u>(916)</u>
Total nonoperating revenue (expense)	<u>497,540</u>	<u>788,165</u>	<u>(290,625)</u>
Change in Net Assets	<u><u>\$ (114,229)</u></u>	<u><u>\$ 212,926</u></u>	<u><u>\$ (327,155)</u></u>

FINANCIAL STATEMENTS

ALPENA HOUSING COMMISSION
COMBINED STATEMENT OF NET ASSETS
December 31, 2004
=====

ASSETS

Current Assets:

Cash	\$ 618,486
Accounts receivable-dwelling rents	1,991
Allowance for doubtful accounts	(638)
Accrued interest receivable	426
Investments-unrestricted	100,000
Prepaid expenses	2,804
Inventories	<u>7,661</u>

Total Current Assets	<u>730,730</u>
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Property, Plant, and Equipment:

Land	196,414
Buildings	7,087,716
Equipment	403,647
Building improvements	947,232
Construction in progress	<u>136,680</u>
	8,771,689
Less: accumulated depreciation	<u>(5,468,823)</u>

Net Property, Plant, and Equipment	<u>3,302,866</u>
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Total Assets	<u><u>\$ 4,033,596</u></u>
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See notes to financial statements

ALPENA HOUSING COMMISSION
COMBINED STATEMENT OF NET ASSETS (CONTINUED)
December 31, 2004
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LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 95,789
Tenant security deposit liability	23,526
Accrued expenses	31,799
Deferred revenues	<u>5,124</u>
Total Current Liabilities	156,238
Noncurrent Liabilities:	
Accrued compensated absences	<u>2,476</u>
Total Liabilities	<u>158,714</u>
Net Assets:	
Invested in capital assets	3,302,866
Unrestricted net assets	<u>572,016</u>
Total Net Assets	<u>3,874,882</u>
Total Liabilities and Net Assets	<u>\$ 4,033,596</u>

See notes to financial statements

ALPENA HOUSING COMMISSION
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
Year Ended December 31, 2004
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OPERATING REVENUES:

Dwelling rent	\$ 417,389
Non-dwelling rent	<u>9,352</u>
Total operating revenues	<u>426,741</u>

OPERATING EXPENSES:

Administration	203,115
Tenant services	10,496
Utilities	133,914
Ordinary maintenance and operation	263,597
General expenses	61,848
Extraordinary maintenance	7,061
Casualty losses	1,485
Depreciation	<u>356,994</u>
Total operating expenses	<u>1,038,510</u>

Operating income (loss)	<u>(611,769)</u>
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NONOPERATING REVENUES:

Investment interest income	7,607
Other income	4,619
Operating grants	315,982
Capital grants	<u>169,332</u>

Total nonoperating revenues	<u>497,540</u>
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Change in net assets	(114,229)
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Net assets, beginning	<u>3,989,111</u>
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Net assets, ending	<u>\$ 3,874,882</u>
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See notes to financial statements

ALPENA HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS
Year Ended December 31, 2004
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Cash flows from operating activities:

Cash received from dwelling and nondwelling rents	\$ 429,164
Cash payments to other suppliers of goods and services	(295,776)
Cash payments to employees for services	(342,857)
Cash payments for in lieu of taxes	<u>(27,951)</u>
Net cash (used) by operating activities	<u>(237,420)</u>

Cash flows from noncapital financing activities:

Tenant security deposits	(386)
Operating grants	315,982
Other revenue	<u>4,626</u>

Net cash provided by noncapital financing activities	<u>320,222</u>
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Cash flows from capital and related financing activities:

Capital grants	188,232
Payments for capital acquisitions	<u>(179,289)</u>

Net cash provided by capital and related financing activities	<u>8,943</u>
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Cash flows from investing activities:

Receipts of interest and dividends	<u>7,607</u>
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Net cash provided by investing activities	<u>7,607</u>
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Net increase(decrease) in cash	99,352
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Cash, beginning	<u>519,134</u>
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Cash, ending	<u>\$ 618,486</u>
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ALPENA HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended December 31, 2004
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Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	\$ 618,486
Restricted cash	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 618,486</u>

Schedule reconciling operating income to net cash flow from operating activities:

Operating income(loss)	\$(611,769)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	356,994
Bad debt allowance	(137)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	3,117
Prepaid expenses	(454)
Inventories	198
Increase (decrease) in liabilities:	
Accounts payable	17,225
Accrued wages/payroll taxes	456
Accrued compensated absences	(1,667)
Accrued payments in lieu of taxes	(689)
Deferred revenues	<u>(694)</u>
Net cash (used) by operating activities	<u>\$(237,420)</u>

See notes to financial statements

ALPENA HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
December 31, 2004
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Alpena Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

The Alpena Housing Commission is a component unit of the City of Alpena, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Alpena on February 26, 1951, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Alpena Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3032, the Housing Commission constructed, maintains and operates 195 units of subsidized housing in the City of Alpena, Michigan.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set

ALPENA HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (continued)

of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Alpena Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds.

ALPENA HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Inventory

Inventory is priced using the average cost method.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$500 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

ALPENA HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Asset Capitalization (continued)

Land improvements	5 - 40 years
Building improvements	5 - 40 years
Equipment for dwellings	7 years
Buildings	7 - 40 years
Furniture, equipment and machinery	
- administration	5 - 10 years
Furniture, equipment and machinery	
- nondwelling	3 - 10 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

ALPENA HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave, an employee who is permanently separated shall be paid, in a lump sum at his/her current rate of pay for all used vacation leave.
- * Sick leave, an employee may accumulate a maximum of 120 days. An employee who has accumulated 120 days is eligible to receive 50% of that time upon death or retirement; payment will be made at the employee's most current rate of pay.
- * Personal leave, there is not a policy for personal leave.

The amount of accumulated benefits at December 31, 2004, was \$23,683, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: CASH AND INVESTMENTS

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States government securities.

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end.

ALPENA HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004
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NOTE 2: CASH AND INVESTMENTS (continued)

Category 1: Includes deposits that are insured, registered, or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage.

Category 2: Includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name.

Category 3: Includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the Housing Commission's deposits may have been higher than the December 31, 2004, balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant type of deposits during the year not included below.

<u>Depository Balances by Category</u>					
<u>Depository</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>	<u>Carrying Value</u>
Citizens Bank	\$202,000	\$	\$328,130	\$ 530,130	\$ 530,130
First Federal of Northern Michigan	<u>187,975</u>			<u>187,975</u>	<u>188,066</u>
Total Deposits	<u>\$389,975</u>	<u>\$</u>	<u>\$328,130</u>	<u>\$ 718,105</u>	718,196
Petty cash					50
Change fund					<u>240</u>
					<u>\$ 718,486</u>
<u>Reconciliation to Cash on Balance Sheet</u>					
Cash					\$ 618,486
Unrestricted investments					100,000
Restricted cash					<u>-</u>
Total					<u>\$ 718,486</u>

ALPENA HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004
=====

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At December 31, 2004, the receivables were \$1,991 with \$638 estimated as uncollectible. Bad debt expense was \$4,218.

Accounts Payable - HUD

Amounts due to HUD represents the amounts advanced in excess of actual expenses for the programs financed.

Inter-fund Receivables, Payables, and Transfers

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other programs" and "due to other programs" on the statement of net assets. The Capital Fund Program owes the Low Rent Program \$33,154, as of December 31, 2004.

There were no Individual fund operating transfers during the fiscal year.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 was as follows:

	<u>Balance</u> <u>12/31/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>12/31/04</u>
Low Rent Program			
Land	\$ 196,414	\$	\$ 196,414
Buildings	6,470,769	203,713	6,674,482
Furniture, equip. & machinery - dwellings	108,447		108,447
Furniture, equip. & machinery - administration	269,029	6,771	275,800
Building improvements	894,210	53,022	947,232
	7,938,869	\$ 263,506	\$ 8,202,375
Less accumulated depreciation	(5,062,899)	\$ (346,934)	(5,409,833)
Total	<u>\$2,875,970</u>		<u>\$2,792,542</u>

ALPENA HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004
=====

NOTE 4: CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>12/31/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>12/31/04</u>
Capital Fund Program				
Buildings	\$ 584,295	\$ 11,929	\$ 182,990	\$ 413,234
Furniture, equip. & machinery - administration	19,400			19,400
Building improvements	49,834		49,834	
Construction in progress	<u> </u>	<u>136,680</u>	<u> </u>	<u>136,680</u>
	653,529	<u>\$ 148,609</u>	<u>\$ 232,824</u>	569,314
Less accumulated depreciation	<u>(48,928)</u>	<u>\$ (30,785)</u>	<u>\$ 20,723</u>	<u>(58,990)</u>
Total	<u>\$ 604,601</u>			<u>\$ 510,324</u>
 Combined Totals				 <u><u>\$3,302,866</u></u>

NOTE 5: INVESTED IN CAPITAL ASSETS

Changes in invested in capital assets (formerly contributed capital) in the enterprise fund type for the year ended December 31, 2004, consist of the following:

	<u>Invested in</u> <u>Capital Assets</u>
Balance, beginning	
Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital	\$ 2,666,525
	<u>636,341</u>
Balance, ending	<u><u>\$ 3,302,866</u></u>

NOTE 6: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes two separate programs which provide housing assistance and grant programs. Segment information for the year ended December 31, 2004, was as follows:

ALPENA HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004
=====

NOTE 6: SEGMENT INFORMATION (Continued)

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>
Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
Dwelling and nondwelling rents	\$ 426,741	\$
Depreciation	(326,209)	(30,785)
Other operating expenses	(681,516)	
Operating (loss)	(580,984)	(30,785)
Nonoperating revenues:		
Investment earnings	7,607	
Operating grants	315,982	
Capital grants		169,332
Other income	4,619	
Change in net assets	(252,776)	138,547
Beginning net assets	3,384,510	604,601
Prior period adjustments and equity transfers	232,824	(232,824)
Ending net assets	<u>\$3,364,558</u>	<u>\$ 510,324</u>

Condensed Statement of Cash Flows

Net cash provided (used) by:		
Operating activities	\$(237,420)	\$
Noncapital financing activities	339,122	(18,900)
Capital and related financing activities	(9,957)	18,900
Investing activities	7,607	
Net increase (decrease)	99,352	
Beginning cash	519,134	
Ending cash	<u>\$ 618,486</u>	<u>\$</u>

NOTE 7: OTHER INFORMATION

A. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

ALPENA HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004
=====

NOTE 7: OTHER INFORMATION (Continued)

B. Pension Plan

The Housing Commission participates in the City of Alpena Employees Retirement System. The pension plan is a defined benefit plan. The employer contributions are actuarially determined and for the year 2004 no employer contributions were required. The actual unfunded actuarial liability for the plan was \$5,038,539 (UAAL) as of December 31, 2004. The actuarial accrued liabilities (AAL) was \$22,927,430 as of December 31, 2004. The market value of assets as of December 31, 2004 was \$27,063,597. The reported revenues were \$1,752,227 and expenditures \$1,806,151 for the year ended December 31, 2004.

The Housing Commission also participates in the City of Alpena's "457" deferred compensation plan. The Housing Commission contributes 4% of gross earnings and the amount paid during the calendar year amounted to \$10,385.68. Employees contributed \$24,581.57 during the calendar year to the plan.

C. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

D. Implementation of New Accounting Standard

As of and for the year ended December 31, 2004, the Housing Commission implemented GASB Statement Number 34 - Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a government's major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

ALPENA HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004
=====

NOTE 7: OTHER INFORMATION (Continued)

F. Prior Period Adjustments, Equity Transfers and
Correction of Errors

Low Rent Program

Equity transfer from completed CFP 501-02 \$ 232,824

Capital Fund Program

Equity transfer to Low Rent Program \$(232,824)

SUPPLEMENTARY INFORMATION

ALPENA HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
 December 31, 2004
 =====

C-3032	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

ASSETS

Current assets:

Cash	\$ 618,486	\$
Accounts receivable-dwelling rents	1,991	
Allowance for doubtful accounts	(638)	
Accrued interest receivable	426	
Investments-unrestricted	100,000	
Prepaid expenses	2,804	
Inventory	7,661	
Due from other programs		<u>33,154</u>
Total current assets	<u>730,730</u>	<u>33,154</u>

Property, plant, and equipment:

Land	196,414	
Buildings	6,674,482	413,234
Equipment	384,247	19,400
Building improvements	947,232	
Construction in progress		<u>136,680</u>
	<u>8,202,375</u>	<u>569,314</u>
Less accumulated depreciation	<u>(5,409,833)</u>	<u>(58,990)</u>
Net property, plant and equipment	<u>2,792,542</u>	<u>510,324</u>
Total Assets	<u>\$ 3,523,272</u>	<u>\$ 543,478</u>

Totals

\$ 618,486
1,991
(638)
426
100,000
2,804
7,661
33,154

763,884

196,414
7,087,716
403,647
947,232
136,680
8,771,689
(5,468,823)

3,302,866

\$ 4,066,750

ALPENA HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
December 31, 2004
=====

	C-3032 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 62,635	\$ 33,154
Tenant security deposit liability	23,526	
Accrued expenses	31,799	
Deferred revenues	5,124	
Due to other programs	<u>33,154</u>	
Total current liabilities	156,238	33,154
Noncurrent liabilities:		
Accrued compensated absences	<u>2,476</u>	
Total liabilities	<u>158,714</u>	<u>33,154</u>
Net assets:		
Invested in capital assets	2,792,542	510,324
Unrestricted net assets	<u>572,016</u>	
Total net assets	<u>3,364,558</u>	<u>510,324</u>
Total Liabilities and Net Assets	<u>\$3,523,272</u>	<u>\$ 543,478</u>

Totals

\$ 95,789
23,526
31,799
5,124
33,154

189,392

2,476

191,868

3,302,866
572,016

3,874,882

\$ 4,066,750

ALPENA HOUSING COMMISSION
**COMBINING STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET ASSETS**
 Year Ended December 31, 2004
 =====

	C-3032 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 417,389	\$
Nondwelling rent	<u>9,352</u>	<u></u>
Total operating revenues	<u>426,741</u>	<u></u>
OPERATING EXPENSES:		
Administration	203,115	
Tenant services	10,496	
Utilities	133,914	
Ordinary maintenance and operation	263,597	
General expenses	61,848	
Extraordinary maintenance	7,061	
Casualty losses	1,485	
Depreciation	<u>326,209</u>	<u>30,785</u>
Total operating expenses	<u>1,007,725</u>	<u>30,785</u>
Operating income (loss)	<u>(580,984)</u>	<u>(30,785)</u>
NONOPERATING REVENUES:		
Investment interest income	7,607	
Other income	4,619	
Operating grants	315,982	
Capital grants	<u></u>	<u>169,332</u>
Total nonoperating revenues	<u>328,208</u>	<u>169,332</u>
Change in net assets	(252,776)	138,547
Net assets, beginning	3,384,510	604,601
Prior period adjustments and equity transfers	<u>232,824</u>	<u>(232,824)</u>
Net assets, ending	<u>\$3,364,558</u>	<u>\$510,324</u>

Totals

\$ 417,389
9,352

426,741

203,115
10,496
133,914
263,597
61,848
7,061
1,485
356,994

1,038,510

(611,769)

7,607
4,619
315,982
169,332

497,540

(114,229)

3,989,111

\$ 3,874,882

ALPENA HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
 Year Ended December 31, 2004
 =====

	C-3032 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
Cash flows from operating activities:		
Cash received from dwelling and nondwelling rents	\$ 429,164	\$
Cash payments to other suppliers of goods and services	(295,776)	
Cash payments to employees for services	(342,857)	
Cash payments for in lieu of taxes	<u>(27,951)</u>	
Net cash (used) by operating activities	<u>(237,420)</u>	
Cash flows from noncapital financing activities:		
Interfund payables/receivables	18,900	(18,900)
Tenant security deposits	(386)	
Operating grants	315,982	
Other revenue	<u>4,626</u>	
Net cash provided (used) by noncapital financing activities	<u>339,122</u>	<u>(18,900)</u>
Cash flows from capital and related financing activities:		
Capital grants		188,232
Payments for capital acquisitions	<u>(9,957)</u>	<u>(169,332)</u>
Net cash provided (used) by capital and related financing activities	<u>(9,957)</u>	<u>18,900</u>
Cash flows from investing activities:		
Receipts of interest and dividends	<u>7,607</u>	
Net cash provided by investing activities	<u>7,607</u>	
Net increase(decrease) in cash	99,352	
Cash, beginning	<u>519,134</u>	
Cash, ending	<u><u>\$ 618,486</u></u>	<u><u>\$</u></u>

Totals

\$ 429,164

(295,776)

(342,857)

(27,951)

(237,420)

(386)

315,982

4,626

320,222

188,232

(179,289)

8,943

7,607

7,607

99,352

519,134

\$ 618,486

ALPENA HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 Year Ended December 31, 2004
 =====

C-3032	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	\$ 618,486	\$
Restricted cash	<u> </u>	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 618,486</u>	<u>\$</u>

Schedule reconciling operating income to net cash flow from operating activities:

Operating income(loss)	\$ (580,984)	\$ (30,785)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	326,209	30,785
Bad debt allowance	(137)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	3,117	
Prepaid expenses	(454)	
Inventory	198	
Increase (decrease) in liabilities:		
Accounts payable	17,225	
Accrued wages/payroll taxes	456	
Accrued compensated absences	(1,667)	
Accrued payments in lieu of taxes	(689)	
Deferred revenues	<u>(694)</u>	<u> </u>
Net cash (used) by operating activities	<u>\$ (237,420)</u>	<u>\$</u>

Totals

\$ 618,486

\$ 618,486

\$ (611,769)

356,994
(137)

3,117
(454)
198

17,225
456
(1,667)

(689)
(694)

\$ (237,420)

ALPENA HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended December 31, 2004
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Fiscal</u> <u>Year</u>	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2004	Low Rent Public Housing	14.850	\$ 315,982
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2004	Capital Fund Program	14.872	<u>169,332</u>
	Total		<u>\$ 485,314</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the
accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

ALPENA HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
Year Ended December 31, 2004
=====

FDS Line Item No.		C-3032 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 618,486	\$ _____
100	Total cash	<u>618,486</u>	_____
	Receivables:		
126	A/R-tenants-dwelling rents	1,991	
126.1	Allowance for doubtful accounts-dwelling rents	(638)	
129	Accrued interest receivable	<u>426</u>	_____
120	Total receivables, net of allowance for doubtful accounts	<u>1,779</u>	_____
	Current Investments:		
131	Investments-unrestricted	<u>100,000</u>	_____
	Other Current Assets:		
142	Prepaid expenses and other assets	2,804	
143	Inventory	7,661	
144	Interprogram due from	_____	<u>33,154</u>
	Total other current assets	<u>10,465</u>	<u>33,154</u>
150	Total current assets	<u>730,730</u>	<u>33,154</u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	196,414	
162	Buildings	6,674,482	413,234
163	Furn, equip & mach-dwellings	108,447	19,400
164	Furn, equip & mach-admin.	275,800	
165	Building improvements	947,232	
166	Accumulated depreciation	(5,409,833)	(58,990)
167	Construction in progress	_____	<u>136,680</u>
160	Total fixed assets, net of accumulated depreciation	<u>2,792,542</u>	<u>510,324</u>
180	Total noncurrent assets	<u>2,792,542</u>	<u>510,324</u>
190	Total Assets	<u>\$3,523,272</u>	<u>\$ 543,478</u>

Totals

\$ 618,486

618,486

1,991

(638)
426

1,779

100,000

2,804
7,661
33,154

43,619

763,884

196,414
7,087,716
127,847
275,800
947,232
(5,468,823)
136,680

3,302,866

3,302,866

\$ 4,066,750

ALPENA HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended December 31, 2004
 =====

FDS Line Item No.		C-3032 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES AND EQUITY/NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 35,373	\$
321	Accrued wage/payroll taxes payable	10,592	
322	Accrued compensated absences	21,207	
331	Accounts payable-HUD PHA programs		33,154
333	Accounts payable-other government	27,262	
341	Tenant security deposits	23,526	
342	Deferred revenues	5,124	
347	Interprogram due to	<u>33,154</u>	
310	Total current liabilities	156,238	33,154
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>2,476</u>	
300	Total liabilities	<u>158,714</u>	<u>33,154</u>
	Equity:		
508.1	Invested in capital assets	<u>2,792,542</u>	<u>510,324</u>
508	Total equity	2,792,542	510,324
	Net Assets:		
512.1	Unrestricted net assets	<u>572,016</u>	
513	Total net assets	<u>3,364,558</u>	<u>510,324</u>
600	Total Liabilities and Equity/Net Assets	<u>\$3,523,272</u>	<u>\$ 543,478</u>

Totals

\$ 35,373

10,592

21,207

33,154

27,262

23,526

5,124

33,154

189,392

2,476

191,868

3,302,866

3,302,866

572,016

3,874,882

\$ 4,066,750

ALPENA HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended December 31, 2004
 =====

FDS Line Item No.		C-3032 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 417,389	\$
704	Tenant revenue-other	<u>9,352</u>	
705	Total tenant revenue	426,741	
706	HUD PHA grants	315,982	
706.1	Capital grants		169,332
711	Investment income-unrestricted	7,607	
715	Other revenue	<u>4,619</u>	
700	Total revenue	<u>754,949</u>	<u>169,332</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	125,403	
912	Auditing fees	1,500	
914	Compensated absences	(1,667)	
915	Employee benefit contributions-adm.	38,977	
916	Other operating-administrative	38,902	
	Tenant Services:		
924	Tenant services-other	10,496	
	Utilities:		
931	Water	43,036	
932	Electricity	49,467	
933	Gas	41,411	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	124,894	
942	Ordinary maint & oper-mat'ls & other	41,353	
943	Ordinary maint & oper-contract costs	43,311	
945	Employee benefit contributions- ordinary maintenance	54,039	
	General expenses:		
961	Insurance premiums	30,368	
963	Payments in lieu of taxes	27,262	
964	Bad debt-tenant rents	<u>4,218</u>	
969	Total operating expenses	<u>672,970</u>	
970	Excess operating revenue over operating expenses	<u>81,979</u>	<u>169,332</u>

Totals

\$ 417,389
9,352
426,741
315,982
169,332
7,607
4,619

924,281

125,403
1,500
(1,667)
38,977
38,902

10,496

43,036
49,467
41,411

124,894
41,353
43,311

54,039

30,368
27,262
4,218

672,970

251,311

ALPENA HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended December 31, 2004
 =====

FDS Line Item No.		C-3032 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
970	Excess operating revenue over operating expenses	<u>81,979</u>	<u>169,332</u>
	Expenses continued:		
	Other expenses:		
971	Extraordinary maintenance	7,061	
972	Casualty losses-noncapitalized	1,485	
974	Depreciation expense	<u>326,209</u>	<u>30,785</u>
	Total other expenses	<u>334,755</u>	<u>30,785</u>
900	Total expenses	<u>1,007,725</u>	<u>30,785</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	(252,776)	138,547
1104	Prior period adjustments, equity transfers and correction of errors	232,824	(232,824)
1103	Beginning Net Assets	<u>3,384,510</u>	<u>604,601</u>
	Ending Net Assets	<u>\$ 3,364,558</u>	<u>\$510,324</u>

Totals

251,311

7,061
1,485
356,994

365,540

1,038,510

(114,229)

3,989,111

\$ 3,874,882

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Alpena Housing Commission
Alpena, Michigan

We have audited the financial statements of the business-type activities of the Alpena Housing Commission, Michigan, (Housing Commission) as of and for the year ended December 31, 2004, which collectively comprise the Housing Commission's basic financial statements and have issued our report thereon dated May 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

Report on Compliance and on Internal Control
In Accordance with Government Auditing Standards
Alpena Housing Commission
Page Two

Compliance and Other Matters (continued)

compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we have noted certain matters that we reported to management of the Housing Commission, in a separate letter dated May 13, 2005.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bary E. Sandlett, M.P.

May 13, 2005

ALPENA HOUSING COMMISSION
INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

DECEMBER 31, 2004

ALPENA HOUSING COMMISSION
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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Alpena Housing Commission

We have audited the financial statements of the Alpena Housing Commission ("Housing Commission") as of and for the year ended December 31, 2004, and have issued our report, thereon, dated May 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing our audit of the financial statements, we considered your internal control in order to determine our auditing procedures for purposes of expressing our opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in our judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 6 showing the audit adjusting journal entries).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To our knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to our retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, we would welcome the opportunity to discuss them with you.

Sam E. Landolt, CPA, PC

May 13, 2005

Barry E. Gaudette, CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Alpena Housing Commission

We have audited the financial statements of the Alpena Housing Commission ("Housing Commission") as of and for the year ended December 31, 2004, and have issued our report, thereon, dated May 13, 2005. We have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to our attention during the audit, are reported on the following pages as management advisory comments.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of our work.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, PC

May 13, 2005

ALPENA HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
December 31, 2004
=====

Tenant Deposits

The deposit ticket is reviewed by someone other than the employee that makes the deposit, but is not initialed that it was reviewed.

We recommend that the Housing Commission have the employee that does not make the deposit review the deposit ticket and then after the deposit ticket receipt is brought back, this employee should review that the deposit is the correct amount and also initial the deposit ticket receipt.

Check signature and approval

Checks require one signature.

Even though the Housing Commission has a policy of only signature on the checks, internal controls are in place for proper approval of bills. A staff member, that is not a check signor, prepares the checks using check writing software. The Executive Director then reviews the invoices to be paid and signs the checks. A third staff member then reviews the invoices before mailing them out. The Board of Commissioners also reviews monthly a check register that includes the check numbers and will request invoices when they have a question.

Invoices

The Housing Commission invoices are currently not usually marked after being approved for payment.

We recommend that the Executive Director stamp the invoices with a "approve or deny" stamp before the check is prepared. Also, before the check is mailed to the payee, the Housing Commission should mark the invoice with a "paid and date paid" stamp. These markings will prevent an invoice from being paid twice and provide another control on approval.

Vendor Credit Card Policy

The Housing Commission has several credit cards with vendors to purchase supplies, but there is not a written policy for these cards.

We recommend the Housing Commission adopt a credit card policy for these accounts. The Michigan Department of Treasury recommends that a policy be adopted.

ALPENA HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS (CONTINUED)
December 31, 2004
=====

Certificate of Deposit

The Housing Commission currently has one Certificate of Deposit. Even though it is the banks' policy to require two signatures, it recommended that the Housing Commission require that the Bank type on the certificate that two signatures are required.

During my fieldwork, the Executive Director had the Bank type the wording on the CD that two signatures would be required to withdraw the CD.

ALPENA HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
December 31, 2004

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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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There were no adjusting journal entries necessary.